C 86/3/990

How to Advertise Consumer Credit

Complying with the Law

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A Federal Trade Commission Manual for Businesses

FT 1.8:

Complying with the Law

HOW TO ADVERTISE CONSUMER CREDIT AND LEASE TERMS

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HOW TO USE THIS MANUAL

This manual was prepared to help you, the advertiser, comply with requirements in federal law for advertising consumer credit and consumer leases. These requirements apply whenever you use specific terms in an advertisement promoting consumer credit or consumer leases. Although this manual is illustrated with newspaper advertisements, the law applies to all kinds of media advertisements for consumer credit and consumer leases.

You may find it helpful to follow these steps in using this manual:

1. Read **General Information**, pages 4-5, which will tell you whether your advertisement is covered by the Truth in Lending Act.
2. Determine whether you are advertising "Closed-End Credit," "Open-End Credit," or a "Consumer Lease." The definitions beginning on page 5 will help you decide.
3. Refer to the appropriate section – **Closed-End Credit** (page 7), **Open-End Credit** (page 20), or **Consumer Leases** (page 25) – for help in preparing or reviewing the advertisement. Note that the requirements differ substantially for each type of transaction.

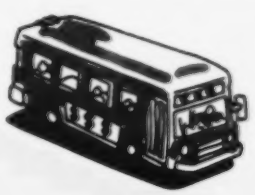
The staff of the Federal Trade Commission's Division of Credit Practices based this manual on the Truth in Lending Act (which includes the Consumer Leasing Act); regulations adopted by the Federal Reserve Board known as Regulation Z (for consumer credit) and Regulation M (for consumer leases); and the Official Staff Commentaries accompanying those regulations that are revised annually by the Federal Reserve Board and made effective each October. This updated edition of the manual reflects changes in the law issued through October 1, 1989. **The manual represents the Federal Trade Commission (FTC) staff's view of what the law requires, and it is not binding on the Commission.**

This manual is intended to be a guide to the advertising requirements; it does not cover all contingencies. For further information, consult the Act, the regulations, and the staff commentaries directly. You also may want to discuss specific questions with your lawyer or with the federal agency (listed below) that has enforcement jurisdiction over your advertising.

The FTC enforces the Truth in Lending Act as to retailers, finance companies, creditors, lessors, and all other advertisers of consumer credit and consumer leases who are not regulated by other federal agencies. The other federal agencies with enforcement jurisdiction for the Act are:

Comptroller of the Currency – national banks;
Federal Reserve Board – state member banks of the Federal Reserve System;
Federal Deposit Insurance Corporation – FDIC-insured banks that are not members of the Federal Reserve System;
Office of Thrift Supervision – insured savings institutions and members of the Office of Thrift Supervision System not insured by FDIC;
Department of Transportation – air carriers;
National Credit Union Administration – Federal credit unions;
Farm Credit Administration – Federal land banks, Federal land bank associations, Federal intermediate credit banks, and production credit associations;
Department of Agriculture – packers and stockyards.

Contact these other agencies directly for further information and assistance if you are subject to their jurisdiction (see "**For Further Information**").



GENERAL INFORMATION

The Truth in Lending Act and Advertising

The main purpose of the Truth in Lending Act is to assure the meaningful *disclosure* of consumer credit and lease terms, including those in advertisements, so that consumers can easily compare terms and shop wisely for credit.

Before passage of the Act, an advertiser might have used only the most attractive credit or lease terms, thus distorting the true cost of the credit or lease. For example, an advertisement might have read, "'63 Chevy, only $30 per month." Whether this is a bargain depends upon information missing from the advertisement, such as the downpayment and the number of payments. The ad also omits the annual percentage rate and does not state whether the transaction is a credit sale or a lease. The Act requires that the advertisement tell the whole story.

For example, if an advertisement contains any of a number of terms specified in the Act, then that advertisement must also include certain prescribed disclosures. In other words, the specified terms "trigger" the disclosures. If, on the other hand, the ad does not use "triggering" terms, it need not make the disclosures. The type of transaction you advertise — closed-end credit, open-end credit, or a consumer lease — determines whether a term is a "triggering term" and, if so, what disclosures are required.

If you, as an advertiser, are unclear about what type of plan is being advertised, or about any of the specific terms of the plan — including the annual percentage rate — you may want to contact the creditor directly to obtain this information. This may help ensure that the credit terms you advertise are accurate.

Who Must Comply

If you place an advertisement that promotes "consumer credit" or a "consumer lease" as defined in the Act, you must comply with the law. Thus, *advertisers*, not just creditors and lessors, must comply, including associations, manufacturers, real estate brokers, builders, and government agencies.

There is no liability under the Act for the media in which advertisements appear. The media can, however, protect their customers by screening advertisements to make sure that they comply with the law.

Oral Rate Disclosures

Certain rules apply only to creditors. If a consumer *orally* asks you, a creditor, about the cost of credit, you *must* state the annual percentage rate. For closed-end credit, you also *may* give a periodic or simple interest rate that is applied to an unpaid balance. For open-end credit, once you state the APR, you also *may* give the periodic rate.

If you cannot determine the annual percentage rate for the specific closed-end credit that the consumer asks you about, you may disclose instead the annual percentage rate in a sample transaction. You also may give other information that applies to the consumer's specific transaction, such as the contract interest rates and points.

Liability for Violations

If you fail to comply with the advertising requirements of the Act, you may be subject to law enforcement actions. Advertisers of consumer credit and consumer leases under the FTC's jurisdiction are subject to enforcement actions that could result in remedies such as:

(1) Orders issued by the FTC to cease and desist from violating the Act. Subse-

quent violations of the FTC order may result in a civil penalty of up to $10,000 for each day the violation continues; *or,*

(2) Injunctions issued by federal district courts against future violations. Violations of court-ordered injunctions may result in civil or criminal contempt proceedings.

If you are under the jurisdiction of a federal regulatory agency other than the FTC, you may wish to consult with that agency to determine your liability for placing a credit or lease advertisement that fails to comply with the law.

In addition, anyone actually harmed by a non-complying consumer *lease* advertisement may sue you for:

(1) actual damages;

(2) 25% of the total amount of monthly payments under the lease (but not less than $100 nor more than $1,000); and

(3) court costs and a reasonable attorney's fee.

General Requirements

Keep the following principles in mind when you design or review an ad promoting consumer credit or consumer leases.

Clear and Conspicuous Disclosures

All advertising disclosures required by the Truth in Lending Act must be printed "clearly and conspicuously." This means that disclosures must be legible and reasonably understandable.

Catalog and Other Multi-Page Advertisements

Under certain circumstances, a catalog or other multi-page advertisement may constitute a single advertisement. This means that only one set of advertising disclosures may be necessary. If so, all required disclosures for the credit advertised must be provided clearly and completely in a table or chart in the catalog. Any credit or lease terms appearing elsewhere in the advertisement must include a clear and conspicuous reference to the page containing the table of disclosures.

Only credit or lease advertisements that consist of *a series of sequentially numbered pages*, such as a newspaper supplement, qualify as "multi-page advertisements." Separate pieces of paper, even those mailed in the same envelope, are separate ads. Thus, if a mailing consists of several pieces of paper and each promotes a different item of merchandise sold on credit or available by lease, each piece of paper containing a "triggering term" must include a full set of disclosures.

Actually Available Credit

You may advertise only credit or lease terms that are actually available to the consumer. "Bait and switch" credit or lease promotions are not allowed. For example, no advertisement may state that a specific installment payment or a specific downpayment can be arranged unless the creditor is prepared to make those arrangements. However, you may advertise terms that will be offered only for a limited time or terms that will become available at a known future date. You need not, of course, promote every credit or lease plan that you offer.

Definitions

The following definitions may be helpful as you read this manual.

Advertisement: An "advertisement" subject to the Truth in Lending Act is *any commercial message* that promotes consumer credit or a consumer lease. "Advertisements" may appear:

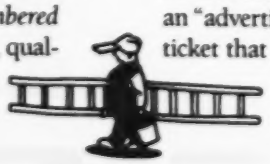
(a) in newspapers, magazines, leaflets, flyers, catalogs, direct mail literature, or other printed material;

(b) on radio, television, or a public address system;

(c) on an inside or outside sign or display, or a window display; or

(d) in point-of-sale literature, price tags, signs, and billboards.

A "commercial message" is any message that promotes a sale or lease. Thus, materials that are educational and do not solicit business or that are required by law are not "advertisements." For example, a brochure issued by a bank explaining FHA mortgages is not a commercial message, nor is a rate sheet prepared and used solely for internal business purposes. A state-required sign posted by a finance company explaining credit terms is not an "advertisement," nor is a merchandise sales ticket that conveys no credit information. On



the other hand, a brochure or sign that combines a sales message with educational or state-required information is an "advertisement."

Annual Percentage Rate: The "annual percentage rate" is the charge for credit, stated as a percentage, and expressed as an annualized rate.

Closed-End Credit: "Closed-end credit" includes all consumer credit that does not fit the definition of open-end credit (see below). Closed-end credit consists of both sales credit and loans. In a typical closed-end credit transaction, credit is advanced for a specific time period, and the "amount financed," "finance charge," and "schedule of payments" are agreed upon by the lender and the customer.

Consumer Credit: "Consumer credit" may be either closed-end or open-end credit. It is credit that is extended primarily for personal, family, or household purposes. It excludes business and agricultural loans, and loans exceeding $25,000 that are not secured by real property or a dwelling. It also must be extended by a "creditor" (although it can be advertised by someone else, such as a builder, real estate broker, or advertising agency).

Consumer Lease: A "consumer lease" is a lease of personal property to a private individual. The lease must be for personal, family, or household purposes and must be for a term of more than four months. So, renting a car for a weekend is not a "consumer lease." The term excludes leases where the customer will have to pay a total of more than $25,000. The term includes leases under which the customer has the option to buy at the end of the lease. However, a "lease" in which the payments equal or exceed the value of the property and which allows the consumer to buy the property at the end of the lease term for a nominal payment or no further payment is actually a credit *sale* ("closed-end credit"), and not a consumer lease.

Credit Sale: A "credit sale" is a transaction in which the seller is also the creditor, at least initially. Often, the seller-creditor will later assign the installment sales contract to another entity, such as a finance company or a bank.

Creditor: A "creditor" is a person or organization (a) that regularly extends consumer credit for which a finance charge is required *or* that is repayable in more than four installments even without a finance charge, and (b) to whom the obligation is initially payable — for example, the finance company, bank, automobile dealer or other lender identified on the face of the credit agreement. A person or organization is considered to extend credit "regularly," if it has extended credit more than 25 times during the preceding year (or more than 5 times for transactions secured by dwellings).

Downpayment: A "downpayment" is an amount paid to reduce the cash price of goods or services purchased in a credit sale transaction. The value of a trade-in is included in the downpayment. It can include a "pick-up" or deferred downpayment that is not subject to a finance charge and is due no later than the second regularly scheduled payment. The downpayment does not include any prepaid finance charges such as points.

Finance Charge: The "finance charge" is the dollar amount charged for credit. It includes interest and other costs, such as service charges, transaction charges, buyer's points, loan fees, and mortgage insurance. It also includes the premiums for credit life, accident, and health insurance, if required, and for property insurance, unless the buyer may select the insurer.

Open-End Credit: In "open-end credit," the creditor:

(a) reasonably expects the customer to make repeated transactions;
(b) may impose a finance charge from time to time on the unpaid balance; and
(c) generally makes the amount of credit available again to the consumer as the outstanding balance is paid.

Examples of "open-end credit" are bank and retail gasoline credit cards, department stores' revolving charge accounts, and cash-advance checking accounts.

Terms of repayment: The phrase "terms of repayment" generally refers to the payment schedule, including the number, timing, and amount of the payments (including any final "balloon" payment) scheduled to repay the debt.

CLOSED-END CREDIT DISCLOSURES

The main requirements governing advertising of closed-end credit concern "triggering terms" and "finance rates." These requirements may apply to a single ad. This section of the manual explains these basic requirements and offers additional guidance for special compliance issues.

Triggering Terms

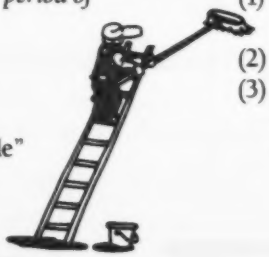
If you advertise closed-end credit with a "triggering term," you also must disclose other major terms, including the annual percentage rate. This rule is intended to ensure that all important terms of a credit plan, not just the most attractive ones, appear in an ad.

The *triggering* terms for closed-end credit are:

(1) *The amount of the downpayment* (expressed as either a percentage or dollar amount), in a "credit sale" transaction.
Examples:
"10% down"
"$1000 down"
"90% financing"
"trade-in with $1000 appraised value required"

(2) *The amount of any payment* (expressed as either a percentage or dollar amount).
Examples:
"Monthly payments less than $250 on all our loan plans"
"Pay $23.44 per $1000 amount borrowed"
"$210.95 per month"

(3) *The number of payments* or *the period of repayment.*
Examples:
"Up to four years to pay"
"48 months to pay"
"30-year mortgages available"



(4) *The amount of any finance charge.*
Examples:
"Financing costs less than $300 per year"
"Less than $1200 interest"
"$2.00 monthly carrying charge."

Some statements about credit terms are too general to trigger additional disclosures. Examples of terms that do *not* trigger the required disclosures are:
"No downpayment"
"Easy monthly payments"
"Loans available at 5% below our standard APR"
"Low downpayment accepted"
"Pay weekly"
"Terms to fit your budget"
"Financing available."

General statements, such as "take years to pay" or "no closing costs," do not trigger further disclosures because they do not state or suggest the period of repayment or downpayment cost. In contrast, the statement "drive it home for $199," which implies that the required cash downpayment is no more than $199, does trigger full disclosure. Similarly, a statement such as "up to 48 months to pay" lists the period of repayment and triggers disclosure. In general, the more specific the statement, the more likely it is to trigger additional disclosures.

Required Disclosures

If your ad for closed-end credit uses a triggering term, it also must include the following information:

(1) The amount or percentage of the downpayment;
(2) The terms of repayment; and
(3) The "annual percentage rate," using that term or the abbreviation "APR." If the annual percentage rate may be

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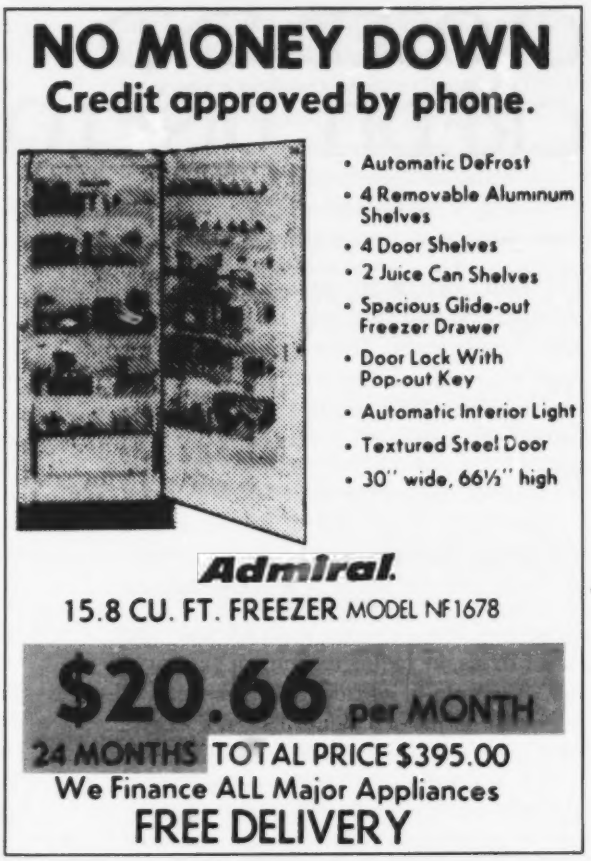
NO MONEY DOWN
Credit approved by phone.
• Automatic DeFrost
• 4 Removable Aluminum Shelves
• 4 Door Shelves
• 2 Juice Can Shelves
• Spacious Glide-out Freezer Drawer
• Door Lock With Pop-out Key
• Automatic Interior Light
• Textured Steel Door
• 30" wide, 66½" high
Admiral.
15.8 CU. FT. FREEZER MODEL NF1678
$20.66 per MONTH
24 MONTHS TOTAL PRICE $395.00
We Finance ALL Major Appliances
FREE DELIVERY

Triggering Terms

Required Disclosures Needed

increased after consummation[1] of the credit transaction, that fact also must be stated.

The amount or percentage of the "downpayment" need not be shown directly, as long as it can be determined from the ad. For example, "10% cash required from buyer" or "credit terms require minimum $1000 trade-in" would satisfy the disclosure requirement.

The "terms of repayment" may be expressed in a variety of ways, as long as they convey the required information. For example, an automobile finance company might use unit cost to disclose repayment terms: "48 monthly payments of $23.44 for each $1000 borrowed." Similarly, the length of the loan can be expressed as the number of payments or the time period of the loan.

[1] "Consummation" means the time at which a consumer becomes contractually obligated on a credit transaction. The time the obligation arises is a matter determined under state law.

RIGHT

MISSOURI'S LARGEST
1989 SUNBIRD LE – CPE #7-9051
AUTOMATIC AIR COND. P. STEERING CASSETTE & MORE
$9995.00*
Grand Prix 1989
SPECIAL PURCHASE 15 IN STOCK *
AIR COND., TILT WHEEL, CRUISE & MORE AUTOMATIC
STK #3-9032
SPECIAL-88 MODEL GRAND AM SEDAN
WAS $11,784
STK #608240
NOW $10,177.00
AIR COND., AUTOMATIC DEFOGGER, STEREO & MORE
1989 LEMANS VALUE LEADER
$139.00* per
$99.00 DOWN
Based On $6150 W/$99 Down Cash Or Trade, 60 Mos., 13.25% APR With Approved Credit.
PONTIAC
*INCLUDES ALL FACTORY INCENTIVES

Triggering Terms

Required Disclosures

Sample Disclosure
The following disclosure of car financing offered by the dealer would comply with the law *if printed clearly and conspicuously:*

> Special close-out sale this weekend. Any in-stock Chevy Citation, only 5% down, 5.9% APR (on approved credit). Example: 48 monthly payments of $224.95.[2]

Advertising Finance Rates

Basic Rule

The second basic requirement for advertising closed-end credit is this: if your ad shows the finance charge as a rate, that rate must be stated as an "annual percentage rate," using that term or the abbreviation "APR." Your ad must state the annual percentage rate, even if it is the same as the simple interest rate. So, if you are a car dealer who wants to advertise low-rate financing made available by the manufacturer, your advertisement would read, for example, "5.9% annual percentage rate" or "5.9% APR." If you want to show *only* a rate, and the APR is stated in the ad, no other credit information need be included: the "triggering term" requirement does not apply because the rate and APR are not triggering terms. Thus, an advertisement could simply state, "Assume 10% annual percentage rate" or "10% annual percentage rate mortgages available."

You must state the annual percentage rate accurately. For example, some transactions, especially real estate loans, include other components in the finance charge besides interest, such as "points" and mortgage insurance premiums paid by the buyer.[3] As a result, the annual percentage rate may be higher than the simple interest rate, because the APR reflects the total cost of credit, including interest and other credit charges.

As long as you include the annual percentage rate in the ad, you also may state a simple annual rate or a periodic rate or both, applicable to an unpaid balance. However, the simple annual or periodic rate may not be more conspicuous in the advertisement than the annual percentage rate. For example, an advertisement for mortgage credit may include the contract rate of interest together with the annual percentage rate, as long as the contract rate is not more prominent than the APR.

No credit ad may state an "add-on" rate (for example, "6% add-on"). This rate is misleading because it is significantly lower than the annual percentage rate, and its use in an ad violates the law.[4]

Variable Rates

A credit plan with an annual percentage rate that may fluctuate in the future (for example, based on market conditions) is a variable-rate transaction. For Truth in Lending purposes, a variable-rate plan involves one or more future interest rates that cannot be determined at consummation. This means that fixed-rate "buy-downs," "step-rate," and graduated-payment mortgages are *not,* by themselves, variable-rate mortgages,[5] because the future interest rates applicable during the life of the loan are known at the time of settlement.

[2]The examples in this manual are for illustrative purposes only. Be sure to check the annual percentage rates and other credit terms to be used in your advertisements for accuracy.

[3]Sections 226.4 and 226.22 of Regulation Z provide further information on the finance charge and annual percentage rate for closed-end credit.

[4]Some states permit the use of "add-on rates" as a method for calculating the yield to the lender in installment credit transactions (for example, in sales financing). Regardless of what method is used under state or other law to calculate the yield, the Truth in Lending Act requires that *advertisements* for a financing rate must show the "annual percentage rate."

[5]Special guidance for advertising buydowns and graduated-payment mortgages is provided on pages 12 and 16 of this manual.

WRONG

DECEMBER BLOW OUT!

$99 DOWN, DELIVERS

4 DOOR FAMILY & LUXURY CARS

SPECIAL PURCHASE FROM GMAC!
1988 OLDS CIERAS (6)
ASSORTED COLORS $99 down

1988 DELTA 88's (2) $99 down

1987 STERLING SL $99 down

1987 OLDS CUTLASS CIERA $99 down

1986 CHEVROLET EUROSPORT $99 down

1986 DELTA ROYALE BROUGHAM $99 down

1986 CUTLASS SUPREME - WHITE $99 down

1986 DELTA 88 - BLUE $99 down

1985 BMW 535I $99 down

1986 Le BARON - LT. BLUE $99 down

1988 CHEVY CORSICA $99 down

1986 CUTLASS SUPREME BROUGHAM $99 down

1986 BUICK ELECTRA WAGON $99 down

1986 CUTLASS CIERA - BLUE $99 down

1980 OLDS CUTLASS SUPREME $99 down

1987 CHEVY CAVALIER Z-24 $99 down

2 DOOR AND SPORT MODELS

1988 GRAND AM - RED $99 down

1987 CUTLASS SUPREME $99 down

1987 CELEBRITY - WHITE $99 down

1987 CUTLASS SUPREME $99 down

1985 HONDA - ACCORD $99 down

1985 DELTA 8 ROYALE $99 down

1985 OLDS 98 - RED $99 down

1986 CHEVY CAMARO Z $99 down

1987 DODGE OMNI $99 down

PICK UPS/VANS 4X4's

1988 GMC SIERRA SL $99 down

1985 GMC VANDURA CONVERSION $99 down

1984 CHEVY S-10 BLAZER 4X4 $99 down

1985 CHEVY S-10 $99 down

ITS HAPPENING NOW AT...

THE NEW **OLDS-GMC**

PLUS TAX N TAGS WITH APPROVED CREDIT

USED CAR DEPARTMENT!

Triggering Terms

Required Disclosures Needed

Triggering Terms

Ads for variable-rate credit must state that the rate may increase or that it is subject to change, but need not explain how changes will be made. The following statement would satisfy this requirement:

> 8.5% annual percentage rate subject to increase or decrease.

By contrast, an ad that promotes "9% APR graduated payment adjustable mortgages" (graduated payment mortgages plus an adjustable rate feature) would not comply with the law, because it does not state clearly that the rate may change.

The annual percentage rate in variable-rate financing ads must be accurate. To help calculate the APR, keep two principles in mind. First, remember there is *only one APR per loan*, regardless of how many *interest* rates may apply during the term of the loan. Second, *assume that any "index" rates*, such as the prime rate or the 6-month Treasury bill, used to determine future interest rate changes *will remain constant during the life of the loan.*

For example, suppose the interest rate on a variable rate loan will be adjusted annually by adding 2½ percentage points to the 1-year Treasury-note rate, which is currently 8 percent. Also suppose there are no other special features in this plan, such as low introductory rates. For purposes of calculating the APR to be advertised for this plan, you should assume that the Treasury-note rate will remain at 8 percent during the life of the loan. If there were no other credit charges in this plan besides interest, the variable rate could be advertised as follows: "10.5% APR subject to increase or decrease."[6]

Special Compliance Issues

Buydowns

Special rules apply when you advertise a loan in which the seller or a third party "buys down" the interest rate during the early years of the loan. Suppose you want to advertise a plan in which the seller or a third party pays an amount to the creditor to reduce the effective interest rate on a 30-year real estate loan. Also suppose the rate would be reduced from 10½% to 8½% the first year.

Your ads may show the reduced simple interest rate or rates applicable during the buydown period. But if you advertise a lower interest rate, you also must show:

- how long the rate will be in effect,
- the simple interest rate for the remainder of the loan, *and*
- the annual percentage rate.

To comply with this requirement, you must determine the accurate annual percentage rate. First, ascertain whether the lower rates are stated as part of the credit contract between the consumer and the creditor. If so, you should take the buydown into account in calculating the annual percentage rate for the advertisement.

If the lower rates are not part of the credit contract, the advertised annual percentage rate should not reflect the buydown. For example, suppose the seller agrees with the consumer to place funds in an escrow account. This escrow account will be drawn upon by the creditor to reduce the consumer's monthly payments during the term of the loan, but the consumer's credit obligation is not changed to reflect the lower effective rate and payments. In this situation, you should not consider the buydown in calculating the APR.

Assuming the reduced rates are part of the credit contract between the consumer and lender, your ad might read as follows:

> This buydown reduces your interest rate from 10½% to 8½% for the first year of your loan. APR 10½%.

[6]Even if there are caps in the loan, the APR should be based on the rate applicable at closing, if there are no special introductory features in the loan. However, if there is a low introductory rate in the loan (such as a discounted rate), the APR and disclosures should not be based solely on the initial rate. More information concerning special types of variable-rate financing, including discounted rates, is provided on pages 14-18.

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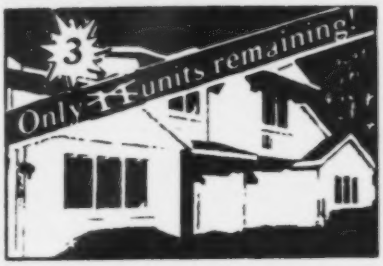
BUILDER'S CLOSE-OUT



7 3/4% APR*

REDUCED PRICE
0 DOWN FINANCING!

- Appliances
- 2 & 3 Bedrooms
- Vaulted Ceilings
- Skylights
- 1 1/2 Baths
- Attached Garage

Act Now! Call

Model Hours
Mon.-Wed. 1-7 p.m.
Sat.-Sun. 12-5 p.m.

COURT TOWNHOMES

*Unit price $72,900, no required down payment.
Year 1, 7¾% APR, 12 month payments at $522.26 P&I.
Year 2, 8¾% APR, 12 month payments at $573.50 P&I.
Year 3, 9¾% APR, 12 month payments at $626.32 P&I.
Balance of $71,202.05 due at year 4.

Improper Rate Disclosure

Improper Payment Disclosure

There is only one APR in installment financing, the APR includes credit costs for the full term of the plan, not just for one year. The APR also incorporates all credit costs, in addition to interest, it would include, for example, mortgage insurance and buyer's points.

Monthly payments should include all components of the finance charge, not just interest. Also, if the balloon payment were due with the 36th payment, the payment disclosure for year 3 would be: 11 monthly payments of $626.32, 1 final payment of $71,828.37.

If the interest rates in the buydown are *not* part of the credit agreement between the consumer and lender (because, for example, they are included in a separate contract between the consumer and the builder), you still may show the reduced interest rates in the ad. But, if you do so, you must include all the rates, the limited terms to which they apply, and the annual percentage rate for the loan. The annual percentage rate that you disclose will not be based on the reduced interest rates, and therefore will be higher than those rates, as in the following example:

> With this buydown, your interest rate for the first year of your loan is only 8½%. Rate for remainder of term is 10½%. 10¾% APR.

If you show this information, you also may show the effect of a buydown on the monthly payments *without* triggering other disclosures. For example, an ad that states the above information also may say "with this buydown, your monthly payment for the first year of the mortgage will be only $615," or "save more than $100 per month the first year!" The use of these terms does *not* trigger disclosure of other information, other than the APR. But, if the ad shows the full term of the loan (such as "30-year financing"), other required disclosures — namely, the downpayment, the terms of repayment, and the APR — must be shown, because the time period is a triggering term.

Discounted Variable Rates

Adjustable rate mortgages (ARMs) often have a first-year "discount" or "teaser" feature in which the initial rate is substantially reduced. In these loans, the first year's rate is not computed in the same way as the rate for later years. Often, the "spread" or "margin" that is normally added to an "index" (such as the one-year Treasury-note rate) to determine changes in the interest rate in the future is not included in the first year of a discounted ARM offered by a creditor.

Special rules, similar to those for buydowns, apply to advertising a discounted variable rate. An ad for this type of plan can show the simple interest rate during the discount period, as long as it also shows the annual percentage rate. However, in contrast to buydowns, the ad need not show the simple interest rate applicable after the discount period. For example, a plan with a low first year's interest rate (8%), but with a 10.25% rate in subsequent years, and additional credit costs, could be advertised as follows:

> 8% first-year financing. APR 10.41%. APR subject to increase after closing.

As in buydowns, the annual percentage rate in discounted plans is a composite figure that must take into account the interest rates that are known at closing. In the above example, the disclosed APR must reflect the 8% rate for the first year, as well as, for example, the 10.25% rate applicable for the remainder of the term, plus any additional credit costs (such as buyer's points).[7]

An ad for a discounted variable-rate loan, like an ad for a buydown, may show the effect of the discount on the payment schedule during the discount period *without* triggering other disclosures. An example of a disclosure that complies with Regulation Z is:

> Interest rate only 8% first year. APR 10.50% subject to increase. With this discount, your monthly payments for the first year will be only $587.

Payment or Effective Rates

In some transactions, particularly some graduated payment loans, the consumer's payments for the first few years of the loan may be based on an interest rate lower than the rate for which the consumer is liable. (This situation is referred to as "negative amortization.") As with buydowns, special rules apply when you advertise the "effective" or "payment" rates for these transactions. Specifically, you may advertise these effective rates if you show the following information:

- the "effective" or "payment" rate,
- the term of the reduced payments,
- the "note rate" at which interest is actually accruing, *and*
- the annual percentage rate.

[7] Note that in a variable rate loan with a low introductory rate, caps on rate changes also must be included in the APR and payment disclosures. An example of this type of transaction is provided on page 18.

$7,900. ON THE HOUSE.

Right now, we're selling $474 a month townhomes starting at only [redacted] It's all part of a plan to save you $7,900 during the first ten years of your mortgage. It's called the FHA-245 Graduated Mortgage Payments Program. And [redacted] is one of the few places that has it. Make lower payments now—up to $118 less per month in the first year—and higher payments after the tenth year when you can better afford them. It's as easy as this:

FHA-245, Plan V

Purchase price: $54,690. Minus $3,890.00 down payment. Mortgage amount: $50,800 at 9½% interest plus ½% Mortgage Insurance Premium with the following monthly payments:

Year	Monthly Payment
1	$358.34
2	$387.03
3	$378.04
4	$388.88
5	$401.08
6	$413.08
7	$425.45
8	$438.25
9	$451.40
10	$464.94
Years 11-30	$478.88

For an Annual Percentage Rate of 10.09%. Taxes not included.

If you'd rather pay a little more at first and a little less later, you can, because altogether, we offer 5 flexible GMP plans. All structured to allow you to choose a plan that fits your needs. So that you can buy a condominium townhome at [redacted] now. While prices are still in the mid 50's.

Townhomes from the mid 50's. All with full basements. V.A. and conventional financing also available.

RIGHT

Triggering Terms

Required Disclosures

The advertised annual percentage rate must take into account the interest for which the consumer is liable, even though it is not paid by the consumer during the period of reduced payments.

This type of financing could be advertised as:

> An effective first-year rate of only 7½ percent. Interest being charged at 10½ percent. 10¼% APR.

In contrast to an ad for a buydown (page 12) or a discounted variable rate (page 14), an ad for an "effective" or "payment" rate may *not* show the monthly payments without triggering the other disclosures discussed on pages 7-8. You can, however, show the range of payments without showing all the intermediate payment amounts. (This type of payment schedule disclosure is explained below in "**Payment Schedules for Graduated Payment Loans and Loans with Mortgage Insurance**.") In addition to the information about the interest rate and APR (shown above), a complying ad for a "payment rate" plan also could state:

> Payments begin at $557.92 for the first year, ranging to $800.96 in years six through remainder of loan term.

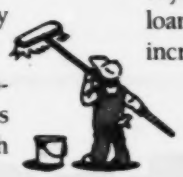
Payment Schedules for Graduated Payment Loans and Loans with Mortgage Insurance

If you advertise a mortgage in which the payments vary either because (1) payments include mortgage insurance premiums payable monthly or annually, or (2) the loan has a "graduated payment" feature,[8] the ad need not show all the different payments required during the life of the loan. These advertisements must state:

- the number and timing of payments,
- the largest and smallest payments, and
- the fact that the other payments will vary between those amounts.

The following example, based upon a condominium with a $65,000 sale price, illustrates the terms of an advertisement for a loan with mortgage insurance. This example would comply with the disclosure requirements, assuming the information is printed clearly and conspicuously:

> Downpayment $15,000; 9.5% APR
> 360 monthly payments
> Payments 1–120 vary from $303.94 to $405.96
> Remaining 240 payments are $436.35.



Payment Schedules for Variable-Rate Loans

Suppose an advertisement promotes a variable-rate loan that is not a "discount" or a "buydown" and has no other special features. However, the advertisement contains triggering terms that require disclosure of the "terms of repayment" (which include the payment amounts). In this ad, only one payment amount need be disclosed to comply with the law.

To determine the proper payment disclosure, calculate the payment based on the interest rate that will be in effect initially during the loan, using the best information available at the time you run the ad. For example, suppose you want to determine the payments for a 30-year variable-rate mortgage in which rate changes will be based on the one-year Treasury bill index, and in which there is no discount and no additional "margin" added to the index. If that index is at 9.5% at the time you run the ad, you could disclose the payment amounts by developing an example, using 360 monthly payments based on the 9.5% rate. So, if you wished to offer a $100,000 condominium with a 20% downpayment (leaving an amount financed of $80,000), with no mortgage insurance and with all prepaid finance charges paid by the seller, the ad could state:

> Payments as low as $673 monthly. 30-year loan. 20% down. 9.5% APR subject to increase.

[8] In graduated payment loans, payments are relatively low in the early years of the loan. The payments rise gradually over a set period and then, if the interest rate is fixed, remain constant for the duration of the loan. If the rate is adjustable, interest rates and payment amounts can fluctuate over the loan term.

RIGHT

OUR VALUE IS DOUBLED IN STAFFORD COUNTY

The Bunker Hill – 3 bedroom split level with expandable lower level

Two exceptional Virginia communities with large wooded lots.

Hickory Ridge Priced from $46,200. *Large wooded lots close to major shopping, schools and commuter transportation. And you'll love the low taxes. The Bunker Hill 3 bedroom pictured above—from $49,800. Directions:*

Patriot's Landing Priced from $50,600. *Our new community of 3, 4 and 5 bedroom quality homes, tucked away in the woods, just off I-95. The Bunker Hill 3 bedroom pictured above.—from $54,400. Directions:*

Typical financing: The Bunker Hill – (Hickory Ridge) – cash price $49,800. $2,500 down payment (5%) at 9-7/8% interest (10½ annual percentage rate). Mortgage $47,300 to be paid in 360 equal and consecutive monthly installments of $411.04.

We pay all closing costs except prepaid items and loan origination fees.

*VA Financing and 5% down**
Conventional Financing
9-7/8% Interest (10-1/2% Annual Percentage Rate)

...talk to in Stafford

Proper Rate Disclosure

Payment Schedules for Discounted Variable-Rate Plans

When an advertisement requiring disclosure of the payment schedule promotes a *discounted* variable-rate loan, rather than a variable rate plan with no special features, the advertised payment schedule must show *all* payment amounts that can be determined before consummation of the loan. For example, if the discounted rate is applicable for only one year, the advertisement should show a payment for the first year based on the reduced interest rate in effect for that year. If the interest rate is subject to annual increases thereafter, the advertisement must show a second payment amount based upon the interest rate that would have been in effect at consummation, except for the discount feature of the loan. Thus, for example, the payment schedule portion of an advertisement for a discounted variable-rate loan with a one-year discount might state:

1st year monthly payments $585
2nd and subsequent years' monthly payments $700.

If the reduced rate plan has limits (or "caps") on the amount that the interest rate or payments may increase in any year, the payment schedule must also show the effect of those caps. Suppose the plan has a cap that limits interest rate increases each year to 2%. Also suppose that interest rates for the loan are determined by the Treasury bill rate plus a 2% margin and that the Treasury bill rate at the time of your ad is 10%. The rate determined by this formula would be 12% (10% plus the 2% margin). The creditor, however, has set the first-year rate at only 9% and the second-year rate can be no more than 11% because of the cap. In a 30-year loan for $100,000 with no other credit charges, your payment disclosures for this loan might read:

1st year's monthly payments $804.62;
2nd year's monthly payments $950.09;
3rd year and subsequent year's monthly payments $1024.34.[9]

Other Considerations

Typical Terms

You may be able to simplify compliance with the law's advertising requirements by using examples of "typical credit terms" in the ad. Suppose a home builder wants to advertise credit terms for many houses, each with a different price, or a bank wants to offer mortgage loans in varying amounts, with different repayment terms. In these situations, if advertising disclosures are required, you may comply by showing one or more examples of a typical credit transaction, as long as each example contains all of the terms that are required to be disclosed. These examples must be labelled as such and must be representative of the credit that is actually available.

For instance, suppose an auto dealer has "60-month financing" available on various types of vehicles. The dealer could comply with the law by stating the credit terms available with 60-month financing based upon an automobile that a consumer could purchase on those terms, as follows:

60-month financing available. Example: 1988 Olds Ciara 20% down, $289 per month, 11% APR. On approved credit.

In some situations, you may have to include more than one sample loan in the advertisement to be sure of including the "typical" situations. For example, suppose you are advertising 30-year financing on several houses in a development. Some of the homes included in the ad are eligible for FHA financing, but others require larger loan amounts with higher financing terms. In this case, the ad would have to provide two examples, with each including the credit terms required by the Act (downpayment, terms of repayment, and APR).

[9] The APR for this loan is 11.53%. It is a blended rate, based upon the 9% interest rate for year one (the discount period), 11% for year two (because the rate increase is limited by the 2% rate cap), and 12% for the remainder of the loan term (the rate at consummation). Note that if there was no low introductory (discounted) rate in the loan, the APR and payment schedule would not include the caps. In that event, the APR for this example would be "12% subject to increase" and the payment disclosures would be "360 monthly payments of $1028.61."

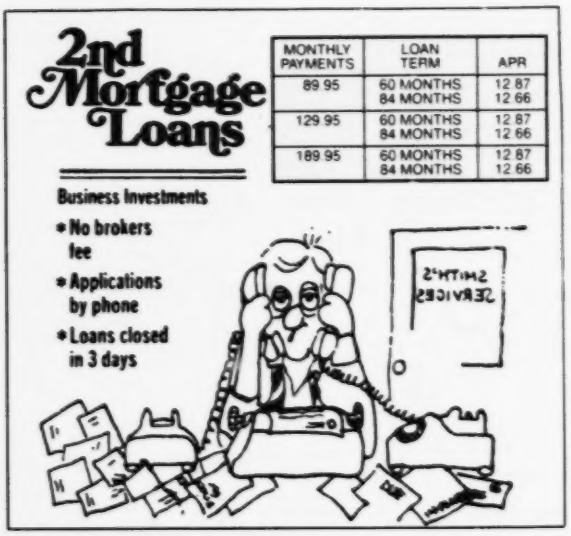
Legal Obligation

Sometimes part of the cost of credit is paid by the seller. For example, a seller will often "discount" an auto installment agreement to another lender, such as a bank. If the amount financed is $9,000, the seller might only receive $8,750 from the lender.

Generally, credit advertisements (and Truth in Lending disclosures) should reflect the consumer's legal obligation to the creditor under the credit agreement. Thus, if the consumer is required under the installment agreement above to repay the $9,000 (plus finance charges), the terms included in the ad should be based on an amount financed of $9,000, not $8,750.

Similarly, the points a seller pays in closed-end credit transactions are *not* reflected in the loan agreement between the buyer and the lender and, therefore, should not be included in Truth in Lending disclosures or ads. The same is true for many "buy-downs" or below-market interest rate offers. On the other hand, points paid by the *buyer* to the lender are part of the buyer's legal obligation and must be reflected in Truth in Lending disclosures and advertising.

RIGHT



Typical Example Method of Disclosure

OPEN-END CREDIT DISCLOSURES

Rules for advertising open-end credit differ in important ways from those for advertising closed-end credit. This section of the manual explains the "triggering terms" and other rules that apply to open-end credit advertising and special rules applicable to home equity plans.

Triggering Terms for All Open-End Credit

If an advertisement promoting open-end credit contains any of the following triggering terms, three specific disclosures also must be included in the ad. The *triggering* terms are:

(1) *The periodic rate used to compute the finance charge or the annual percentage rate.*
Examples:
"Less than 1-1/2% per month"
"14% APR"

(2) *A statement of when the finance charge begins to accrue, including the "free ride" period (if any).*
Examples:
"Up to 30 days of free credit if you pay in full each month."
"We charge interest from the date we receive notice of your purchase."

(3) *The method of determining the balance on which a finance charge may be imposed.*
Examples:
"A small monthly service charge on your remaining balance each month."
"Interest will be charged on your average daily balance each month."

(4) *The method of determining the finance charge, including a description of how any finance charge other than the periodic rate will be determined.*
Examples:
"You only pay $1.00 each time you write an overdraft check."
"Minimum finance charge: 50 cents per month."

(5) *The amount of any charge other than a finance charge that may be imposed as part of the plan.*
Example:
"There is a $25 annual membership fee to get your card."

These terms, in contrast, do *not* trigger the required disclosures:
"Charge Accounts Available"
"Open a Revolving Budget Account"
"Just Say 'Charge It'"
"All Major Credit Cards Honored"
"Charge Some Cash"

Required Disclosures

If any triggering term is used in an open-end credit advertisement, then the following three *disclosures* also must appear:

(1) Any minimum, fixed, transaction, activity, or similar charge that could be imposed;

(2) Any periodic rate that may be applied, expressed as an "annual percentage rate."[10] The term "annual percentage rate" or an abbreviation such as "APR" must be used and, if the plan provides

[10] In open-end credit, the "annual percentage rate" for advertisements is found by multiplying the periodic rate by the number of periods in a year. Sections 226.4 and 226.14 of Regulation Z provide further information on the finance charge and annual percentage rate for open-end credit.

RIGHT

Announcing the 12% solution to inflation problems. Send for yours today!

wants to team up with you in the fight against inflation. That's why we offer you the 12% solution—a lower interest Visa plan.

Most credit card plans charge you up to 18% annual interest. But the new Visa only charges a 12% annual rate. There is a difference in the way we charge interest on your Visa account. Most 18% credit cards give you a 30 day grace period. Because we give you a much lower rate, we charge interest from the date we receive notice of your Visa transaction.

The Visa works like a regular Visa. With some important differences. First, you secure your Visa credit with a $1,000 minimum certificate account which you open at . So while you save money on finance charges, you make money on your certificate account.

And when you obtain Visa, your credit line can equal half the initial deposit in your certificate account. Another important feature of our Visa plan is that you are not required to make a monthly minimum payment, as long as you stay under your credit limit.

TRUTH-IN-LENDING DISCLOSURE STATEMENT

When you use your Visa Card to make a purchase from a merchant, or obtain a cash advance from a financial institution, Federal will impose a FINANCE CHARGE on the amount of credit you have obtained. The FINANCE CHARGE begins to accrue on the date your purchase or advance is posted to your account, and is equal to a periodic rate of 1% of the "average daily balance" outstanding during the monthly billing cycle. The "average daily balance" is computed by adding together the daily balance totals (credit extended, less payments made) for each day of the billing cycle. Your charges are billed on a 30 day cycle. The ANNUAL PERCENTAGE RATE is 12%. The 12% interest rate is effective July 1, 1979. *Substantial penalty required for early withdrawal.

Triggering Terms

Required Disclosures

for a variable periodic rate, that fact must be disclosed; and

(3) Any membership or participation fee.[11]

Sample Disclosure

The following advertisement would comply with the law:

Now pay only 14% APR on your credit card from XYZ Credit Services! (Annual fee $25; minimum monthly finance charge of 50 cents; $1 service charge on each cash advance.)

Advertising Finance Rates

In contrast to closed-end credit, the periodic rate and APR are *triggering terms* in open-end credit, and so require the disclosures discussed above. As with closed-end credit, however, an ad that complies with the triggering term rules may show a periodic rate as well as the APR. For example, an ad could show the rate as 1.17 percent per month, so long as the ad also showed the 14 percent APR and complied with the other triggering term rules.

[11]Solicitations by card issuers that offer to open a credit or charge card account are subject to additional (non-advertising) disclosure requirements. Check Section 226.5a of Regulation Z directly for this information.

Special Compliance Issues

Variable Rates

Requirements for advertising open-end, variable-rate credit plans differ in some ways from those for closed-end plans. In an advertisement for an open-end, variable-rate plan that contains a triggering term, there are several ways in which the annual percentage rate may be stated. The advertisement may:

- use an insert showing the current A[illegible],
- give the APR as of a specified date, *or*
- disclose an estimated APR.[12]

In addition, the advertisement must disclose the variable-rate feature. You can satisfy this requirement with a statement that the "annual percentage rate may vary" or a similar statement. The advertisement need not explain the circumstances under which the rate may increase, the limitations on the increase, or the effects of an increase.

Discounted Variable Rates

Discounted variable-rate plans — a plan with an interest rate that is reduced by the lender for a short, introductory period — are also offered in open-end financing. If the advertisement for this plan contains a triggering term, the ad must show, in addition to the other required information, the introductory annual percentage rate and how long that rate is valid. It also must show the APR after the introductory period and indicate that the second rate may vary. The rate after the introductory period (called the "indexed rate") must be calculated using the *current* value of the index as of the time of placement of the ad, or as of a specified recent date, or must be clearly and conspicuously labeled as an estimate.

Suppose you wish to advertise a plan with a 7.5% APR for the first six months, and an indexed rate equal to the prime rate plus a margin of 1.5% after that introductory period. If the prime rate as of the time the ad is run (say, November 1) is 10%, and the APR for the credit would be 10.5%, the plan could be advertised as follows:

> 7.5% APR FOR THE FIRST SIX MONTHS! After first six months, APR is 10.5% (as of November 1), subject to increase based on market conditions.

Note that the ad need not give details about the adjustments, such as the index used or the method of computing the rate. Nevertheless, you may want to provide that information as a convenience to consumers.

Other Considerations

You must state all required disclosures in specific terms. For example, if an advertisement contains a triggering term, a general statement that "the finance charge will be imposed on the opening balance less all appropriate credits" is not adequate to disclose the balance on which the finance charge is computed. The reason is that this statement does not inform the consumer of the size and nature of the credits.

Home Equity Plans

Promotions for home equity financing are subject to special advertising requirements, as well as to the general open-end requirements discussed above. These special requirements apply to advertisements for home equity plans that involve open-end credit and are secured by the consumer's dwelling, including a vacation or second home.

If an advertisement promoting home equity credit contains any of the following triggering terms, stated either *affirmatively* or *negatively*, three specific disclosures must be included in the ad. The home equity triggering terms are:

(1) The periodic rate used to compute the finance charge or the annual percentage rate.

Example:

"In our home equity plan, you pay only ½% per month"

"We offer home equity loans for only 8% APR."

[12]If you disclose an estimated rate, the estimate must be based on the best information reasonably available at the time of the advertisement, and the ad must state explicitly that the rate disclosed is an estimate.

WRONG

Now Get A Home Equity Loan With No Application Fee, No Appraisal Fee And [redacted]

BUT ONLY UNTIL [redacted]

If you own a house, a condo, or a co-op, [redacted] can save you a lot of money on a Home Equity Loan.

There's no application fee. Saving you up to $200.

There's no appraisal cost. Saving you up to $250.

And there are [redacted] at closing for an additional savings.

Also, your Home Equity Loan or Home Equity Line of Credit can be used for almost any purpose and your interest payments may be 100% tax-deductible. (Consult your tax advisor.)

To apply for a loan or to find out how much you can borrow, visit any of our [redacted] branches. Or call [redacted] at [redacted]. But do it soon. Offer ends [redacted].

All loans are secured by a mortgage on your home and are subject to credit approval. Available through [redacted]. Applications must be received by [redacted].

[redacted]

Required Disclosures Needed

(2) A statement of when the finance charge begins to accrue, including the "free ride" period (if any).
Example:
"There is no free ride period in this home equity plan."

(3) The method of determining the balance on which a finance charge may be imposed.
Example:
"In this home equity plan, we charge interest on your previous balance."

(4) The method of determining the finance charge, including a description of how any finance charge other than the periodic rate will be determined.
Example:
"You pay a charge of only $1.00 when you use your home equity line of credit."

(5) The amount of any charge other than a finance charge that may be imposed as part of the plan.
Example:
"No annual fees on our super home equity line."

(6) The payment terms of the plan, such as the length of the draw period, the repayment period, and the minimum periodic payments.
Example:
"Only $100 per month in our home equity plan."
"Up to 10 years to repay."

Required Disclosures

If any of the above triggering terms are used in a home equity credit ad, then the following three disclosures must appear clearly and conspicuously in the advertisement:

(1) Any loan fee that is a percentage of the credit limit under the plan, and an estimate of any other fees for opening the plan stated as a single dollar amount or a reasonable range;

(2) Any periodic rate used to compute the finance charge, expressed as an annual percentage rate.

(3) The maximum annual percentage rate that may be imposed in a variable rate plan.

Discounted Rates

If an advertisement for a home equity plan with a variable rate plan states a discounted rate (an initial annual percentage rate that is not based on the index and margin used for later rate adjustments), the ad must also state additional information. It must state the period of time the initial rate will be in effect. It must also show, with equal prominence to the initial rate, a reasonably current APR that would have been in effect using the index and margin.

Balloon Payments

If a home equity advertisement contains a statement about any minimum periodic payment (only $150 per month), the ad must also disclose, if applicable, that a balloon payment may result.

Misleading Terms

Advertisements for home equity plans may not make misleading statements regarding the tax deductibility of any interest expense. For example, an advertisement referring to the tax deductibility of home equity credit would not be misleading if it includes a statement that the consumer should consult a tax advisor regarding the deductibility of interest costs.

Home equity ads may also not use the term "free money" or similarly misleading terms.

Other Considerations

Some home equity plans provide for conversion to a repayment phase in which additional advances are not permitted beyond a certain time period. Even if this information is included in the advertisement, the promotion is covered by the general open-end and special home equity rules discussed in this chapter, not by the closed-end (installment) advertising rules. For example, if the ad states "five-year draw period, with ten additional years to pay off the balance," the ad would comply with the law if it also stated clearly and conspicuously:

"Only $500 to open this plan; 12% APR, subject to increase, maximum APR 20%."[13]

[13] This disclosure assumes that in this home equity plan, there are no loan fees that are a percentage of the credit limit, no minimum, fixed, transaction, or similar charges, and no membership or participation fees.

CONSUMER LEASE DISCLOSURES

Requirements for advertising consumer leases differ from those for advertising closed-end or open-end credit. This section of the manual explains the "triggering term" rule that applies to consumer lease advertising.

Triggering Terms

If an advertisement promoting a "consumer lease" contains any of the following triggering terms, then the ad also must include certain specific disclosures. This rule, like those applicable to closed-end and open-end credit, is intended to ensure that all major terms of the lease are included in the ad.

The *triggering* terms for consumer leases are:

(1) *The amount of any payment.*
Example:
"Pay a mere $128 per month"

(2) *The number of required payments.*
Examples:
$133 per month . . . 36 month lease"
"Low monthly payments on our four-year auto leases"

(3) *A statement that any downpayment or no downpayment, or other payment, is required at the beginning of the lease.*
Examples:
"Lease now and make no payments for three months"
"Only a small downpayment"
"Leave your pocketbook behind and return home in your leased '63 Chevy."

The following are examples of terms that do *not* trigger the required disclosures:
"Low Monthly Payments"
"Lease for Less than It Costs to Buy"
"We Lease to Anyone"

Required Disclosures

If an ad promoting a consumer lease uses any triggering term, then it also must include the following *five* disclosures:

(1) A statement that the transaction advertised is a lease;

(2) The total amount of any payment (such as a security deposit or capitalized cost reduction) required at the beginning of the lease, or a statement that no such payment is required;

(3) The number, amounts, due dates or periods of scheduled payments, and the total of these payments under the lease;

(4) A statement explaining whether the customer has the option to purchase the leased property and, if so, at what time and price. The method of determining the price may be substituted for disclosure of the price; and

(5) A statement of the amount (or method of determining the amount) of any liabilities the lease imposes upon the customer at the end of the term. If the customer has this liability, the ad also must include a statement that the customer is responsible for any difference between the estimated value of the leased property and its realized value at the end of the lease term.

Sample Disclosure

The following is an example of the required disclosures for a consumer lease advertisement that would comply with the Truth in Lending Act:

36-month lease. No payments at the beginning of the lease, 36 monthly payments of $128 totaling $4,608. Customer has no option to purchase at the end of the lease. Customer will have no further liability unless auto has depreciated to less than 40% of its new car price. If so, customer is liable for that additional depreciation.

Other Considerations — Merchandise Tags and Multiple Item Leases

If a merchandise tag for an item normally included in a multiple item lease (such as a merchandise tag on furniture) contains any triggering term, it must either (a) include all required disclosures or (b) *clearly and conspicuously* refer to a sign or display prominently posted in the lessor's showroom that includes all required disclosures.

WRONG

LEASE

You can now LEASE a Luxurious Mercedes-Benz 240 Diesel for Less . . .

only . . [redacted]

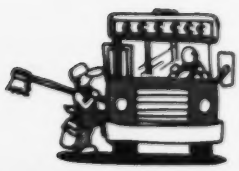
WITH AIR CONDITIONING, AM/FM RADIO, CENTER ARM REST, 4 SPEED TRANSMISSION

SALES TAX & TAGS NOT INCLUDED

Oldsmobile • Datsun • Mercedes-Benz

[redacted]

Required Disclosures Needed



FOR FURTHER INFORMATION

Several federal agencies enforce the credit and lease advertising regulations described in this manual. If you need further information about credit or lease advertising and you are under the Federal Trade Commission's jurisdiction, contact the Commission office nearest you. Check the listing on the back cover of this manual. If you are under the jurisdiction of another federal agency, contact the appropriate agency at the address provided below:

Comptroller of the Currency Department of the Treasury 490 L'Enfant Plaza, S.W. Washington, D.C. 20219	National banks
Board of Governors of the Federal Reserve System Division of Consumer and Community Affairs Washington, D.C. 20551	State member banks of the Federal Reserve System
Federal Deposit Insurance Corp. 550 17th Street, N.W. (F130) Washington, D.C. 20429	FDIC-insured banks not members of the Federal Reserve System
Office of Thrift Supervision Office of Regulatory Activity 1700 G Street, N.W. Washington, D.C. 20552	Federally-insured savings institutions and members of the Office of Thrift Supervision System not insured by FDIC.
Department of Transportation Consumer Affairs Division 400 Seventh Street, S.W. Washington, D.C. 20591	Air carriers
National Credit Union Admin. 1776 G Street, N.W. Washington, D.C. 20456	Federal credit unions
Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102	Federal land banks, federal land bank ass'ns., federal intermediate credit banks, production credit associations
Department of Agriculture 14th Street & Indep. Ave., S.W. Washington, D.C. 20250	Packers & stockyards

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HEADQUARTERS

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6th and Pennsylvania Avenue, N.W.
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REGIONAL OFFICES

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San Francisco, California 94103
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